

FISCAL NOTE

Bill #: HB0189

Title: Impose phased-in premium tax on state fund

Primary Sponsor: Matthews, G

Status: As Introduced

| | | | |
|-------------------|------|-----------------------------|------|
| Sponsor signature | Date | David Ewer, Budget Director | Date |
|-------------------|------|-----------------------------|------|

Fiscal Summary

| | <u>FY 2006</u> <u>Difference</u> | <u>FY 2007</u> <u>Difference</u> |
|--|---|---|
| Expenditures: | | |
| General Fund | \$60,465 | \$129,396 |
| State Special Revenue | \$51,827 | \$110,910 |
| Federal Special Revenue | \$20,155 | \$43,132 |
| State Agencies - Proprietary | \$11,517 | \$24,647 |
| Montana State Fund - Proprietary | \$0 | \$1,905,378 |
| Revenue: | | |
| General Fund | \$0 | \$1,905,378 |
| State Special Revenue | \$0 | \$0 |
| Federal Special Revenue | \$0 | \$0 |
| State Agencies - Proprietary | \$0 | \$0 |
| Montana State Fund - Proprietary | \$1,905,378 | \$3,974,185 |
| Net Impact on General Fund Balance: | \$0 | \$1,775,982 |

| | |
|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

Montana State Fund

1. The bill will phase in the premium tax imposed on the Montana State Fund over two years. For premiums written in FY 2006, a premium tax of one percent will be imposed. For premiums written in FY 2007, a premium tax of two percent will be imposed.
2. For premiums written in FY 2008 and subsequent fiscal years, a premium tax as provided in 33-2-705(2), MCA, will be imposed which is currently 2.75 percent.
3. The State Fund is required in 39-71-2316(5), MCA, to charge premiums so that the State Fund will be neither more nor less than self-supporting.
4. The State Fund's source of revenue is workers' compensation insurance premium.

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5. The premium tax expense will be calculated into Montana State Fund workers' compensation premium rates charged to State Fund policyholders as it is not currently in the State Fund's cost structure.
6. The following table displays:
 - a. Montana State Fund fiscal year estimated written premium, including an increase for the premium tax expense;
 - b. Premium tax rate in legislation;
 - c. Amount of estimated increased premium due to premium tax expense; and,
 - d. Estimated premium taxes paid.

| Fiscal Year | State Fund Estimated Written Premium | Premium Tax Rate | Annual State Fund Premium Collected to Offset Tax Expense | Premium Tax Paid |
|-------------|--------------------------------------|------------------|---|------------------|
| 2005 | \$193,736,883 | 0.00% | \$0 | \$0 |
| 2006 | \$190,537,803 | 1.00% | \$1,905,378 | \$0 |
| 2007 | \$198,709,255 | 2.00% | \$3,974,185 | \$1,905,378 |
| 2008 | \$208,754,908 | 2.75% | \$5,740,760 | \$3,974,185 |

7. The State Fund will increase workers' compensation premium rates by 1 percent for premiums billed in FY 2006 to collect the \$1,905,378 in premium tax required and to remain 'self-supporting' as is required in law.
8. The State Fund will increase workers' compensation premium rates by an additional 1 percent over FY 2006 for premiums billed in FY 2007 to collect the 2 percent or \$3,974,185 in premium tax required and to remain 'self-supporting' as is required in law.
9. The State Fund will increase workers' compensation premium rates by an additional 0.75 percent over FY 2007 for premiums billed in FY 2008 to collect the 2.75 percent or \$5,740,760 in premium tax required and to remain 'self-supporting' as is required in law.
10. When determining written premiums for this fiscal note, the State Fund does not assume any other rate increases based on loss trends, legislative changes, court decisions, or other issues when estimating the fiscal year premium. These trends will be taken into account during the rate setting process but for purposes of this fiscal note these items are not included
11. The State Fund assumes a net 95 percent retention of business. Some business is lost every year and new accounts are written every year. The estimated net impact is 95 percent retention of State Fund's premium base. The State Fund assumes a 2.5 percent annual increase in covered payrolls.
12. In subsequent years beyond FY 2008 no additional rate increases associated with the premium tax will be required unless there is a premium tax rate increase.
13. All policyholders, state agencies included, will incur increases to their workers' compensation insurance premiums as a result of this legislation.

State Agencies

14. The State Fund estimates the premiums to state agencies will increase as a result of this legislation by:
 - a. \$143,965 in FY 2006;
 - b. \$308,085 in FY 2007;
 - c. \$444,798 in FY 2008.

State Auditor's Office

15. The State Auditor's office will collect the additional premium tax collections. The collections are deposited in the general fund.
16. The premium report and collections are due on Dec 15th of each fiscal year for the previous fiscal year. So collections for FY 2006 will be paid in FY 2007 and collections for FY 2007 will be paid in FY 2008.

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FISCAL IMPACT:

| | <u>FY 2006 Difference</u> | <u>FY 2007 Difference</u> |
|--|-------------------------------|-------------------------------|
| Montana State Fund | | |
| <u>Expenditures:</u> | | |
| Operating Expenses | \$0 | \$1,905,378 |
| <u>Funding of Expenditures:</u> | | |
| Proprietary (06) | \$0 | \$1,905,378 |
| <u>Revenues:</u> | | |
| Other – Proprietary (06) | \$1,905,378 | \$3,974,185 |
| State Agencies | | |
| <u>Expenditures:</u> | | |
| Personal Services | \$143,965 | \$308,085 |
| <u>Funding of Expenditures:</u> | | |
| General Fund (01) | \$60,465 | \$129,396 |
| State Special Revenue (02) | 51,827 | 110,910 |
| Federal Special Revenue (03) | 20,155 | 43,132 |
| Proprietary (06) | <u>11,517</u> | <u>24,647</u> |
| TOTAL | \$143,965 | \$308,085 |
| State Auditor's Office | | |
| <u>Revenues:</u> | | |
| General Fund (01) | \$0 | \$1,905,378 |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | |
| General Fund (01) | (\$60,465) | \$1,775,982 |
| State Special Revenue (02) | (\$51,827) | (\$110,910) |
| Federal Special Revenue (03) | (\$20,155) | (\$43,132) |
| State Agencies – Proprietary (06) | (\$11,517) | (\$24,647) |
| State Fund – Proprietary (06) | \$1,905,378 | \$2,068,807 |

LONG-RANGE IMPACTS:

The premiums tax rate the State Fund would pay increases each year until it reaches the regular 2.75% rate for premiums received in FY 2008. The State Fund would pay premiums tax of \$3.974 million in FY 2008, for premiums in FY 2007, and \$5.741 million in FY 2009. After FY 2009, State Fund premiums tax payments would grow at the same rate that total State Fund premiums revenue grows.

In FY 2008, state agencies would pay an additional \$0.445 million in workers' compensation premiums. Forty-two percent would be paid by the general fund.

TECHNICAL NOTES:

1. This legislation will require the Montana State Fund to file a copy of its current fiscal year annual financial statement on or before December 15 of each fiscal year. The legislation does not define the

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accounting basis of the annual financial statements: examples; Governmental Accounting Standards Board (GASB); Financial Accounting Standards Board (FASB); or Statutory accounting. The legislation does not state whether the financial statements are audited prior to filing.

2. On page 4, lines 12 through 14 require the State Fund to file a report each fiscal year, on or before December 15, showing premiums for the prior fiscal year. This bill is effective July 1, 2005. Thus, it requires a report December 15, 2005 for premium income in FY 2005. However, this act applies to premiums collected in FY 2006 and following fiscal years. The bill should be amended to clarify that the first report is due December 15, 2006.